



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Joseph Horwedel  
Jeffrey L. Clet

**SUBJECT: INDUSTRIAL TOOL  
INSTALLATION PROGRAM**

**DATE:** May 16, 2006

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Approved	/s/	Date	05/24/06
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## **RECOMMENDATION**

1. Authorize the addition of three positions in Planning, Building and Code Enforcement (1.0 Supervising Inspector and 1.0 Building Inspection Manager) and the Fire Department (1.0 Associate Engineer).
2. City Council approval of amendments to the 2006-2007 Proposed Operating Budget in the General Fund:
  - a. Increase the Personal Services appropriation in the Department of Planning, Building and Code Enforcement in the amount of \$288,000.
  - b. Increase the Non-Personal/Equipment appropriation in the Department of Planning, Building and Code Enforcement in the amount of \$5,000.
  - c. Increase the Personal Services appropriation in the Fire Department in the amount of \$127,000.
  - d. Increase the Non-Personal/Equipment appropriation in the Fire Department in the amount of \$2,500.
  - e. Decrease the Building Fee Reserve by \$293,000.
  - f. Decrease the Fire Fee Reserve by \$129,500.
3. Amend the Proposed 2006-2007 Fees and Charges Report to add an Industrial Tool Installation (ITI) Program Annual Registration Fee of \$1,500.

## **OUTCOME**

The fee and additional staff will allow for the establishment of the Industrial Tool Installation (ITI) Program. This program will facilitate improved customer service for existing high tech manufacturing and R & D facilities. The ultimate outcome will be the retention and attraction of industry to San Jose.

## **BACKGROUND**

In November of 2005, City staff met with employees of Novellus Systems Inc, a San Jose-headquartered company that manufactures equipment used in the production of semiconductors.

Novellus staff was concerned about Development Services' slowness and lack of coordination in the permitting process for industrial tool installation projects. City staff agreed to research the issue and work with Novellus and other companies to find a solution.

Also in 2005, staff was directed through Counter to Council to research best practices in Development Services programs throughout the country. One of the programs explored was the Annual Facilities Permit (AFP) Program in Phoenix, which provides a dedicated team of Development Services staff to conduct plan review and inspection for participating facilities. The ITI Program is modeled, in part, after the success of Phoenix's AFP Program.

The ITI Program will target local companies that undertake frequent "tool installations," or the installation or replacement of large, expensive pieces of equipment in an industrial facility. The objective of the ITI Program is to assist these companies in remaining competitive by shortening their tool installation-to-production cycle time. For example, a semiconductor manufacturer may seek to replace an existing piece of equipment that processes silicon wafers with a new, more profitable model. This "tool installation" may require Building and/or Fire permits due to the size and weight of the tool, its process piping, the hazardous materials used, etc. If such a project is delayed in a lengthy and complex permitting process, the company forgoes profits and accrues additional costs, decreasing the company's competitiveness.

Therefore, the ITI Program will expedite the permitting and inspection processes for tool installation projects at participating companies. This will be achieved by maintaining a focused plan review and inspection team to process all tool installation and related projects. The team will include staff from Building, Fire, and Planning. When a participating facility wants to initiate a project, the team will meet with the facility's staff on-site to review plans, issue permits and establish an inspection schedule.

The ITI Program is an example of Development Services' broader effort to serve all customer groups, a concept described in separate Manager's Budget Addendum, "Customer Focused Building Services." The ITI Program will improve the services that the City of San Jose provides to high tech companies, which comprise an essential driving industry in the economy. The program will work in tandem with the existing Special Tenant Improvement (STI) Program. Taken together, the STI and ITI Programs will provide a range of targeted services to industrial customers.

## **ANALYSIS**

The ITI Program will provide faster, more reliable service to industrial facilities for tool installation and related projects. Although Development Services currently offers a range of service options, such as Express and Intermediate Plan Check, a readily available and focused team with representatives from all relevant departments and divisions is required to best serve the customer on these complex projects. The focused team will form a strong working relationship with facilities staff, and will gain useful knowledge of the operations and construction history of the facility. Furthermore, a designated point of contact on the ITI team and at each participating facility will provide a direct channel of communication between the City and the customer.

An outreach process conducted by Development Services staff in 2005-2006 indicated high demand for the ITI Program. Staff met with several companies to understand their experiences working with the City's development process and to discuss their interest in the potential ITI Program. Seven large companies gave informal confirmation of their desire to participate in the ITI Program. Staff anticipates letters from several of these companies to demonstrate their interest and support for the program. The volume of projects that these seven companies would process through the ITI Program is projected to be 150 per year. Additionally, at least six other companies have demonstrated interest in the program. Other companies may be interested but have not yet been contacted directly.

Like the AFP Program in Phoenix, the ITI Program will charge facilities (1) an annual registration fee, and (2) an hourly fee for all plan review and inspection services. The annual registration fee is required to achieve full cost recovery because all of the ITI team hours will not be billable. As staff must remain available at all times to quickly respond to service requests, short periods of downtime are inevitable. The proposed annual fee is intended to recover the margin of staffing inefficiency that must be built into the program. It is recommended that page 98 of the Proposed 2006-2007 Fees and Charges Report be amended to include an Industrial Tool Installation Program Annual Registration Fee of \$1,500 (see Attachment A). Staff expects that the addition of the annual registration fee to the standard fees charged will bring the ITI Program to full cost recovery.

The company outreach effort and the Phoenix experience suggest that the ITI Program will increase overall project volume for Development Services, as the improved process will encourage companies to permit their projects. Considering this increase in volume and the staff-intensive focused team approach, the addition of one Supervising Inspector and one Building Inspection Manager in the Building Division and one Associate Engineer with Hazardous Materials expertise in the Fire Department are proposed (see Attachment B). Sufficient funds exist in the Building and Fire Fee Reserves to cover these initial start-up costs, which will be reimbursed by ITI Program revenue.

During the initial 18 months of the program, staff will closely monitor all costs incurred and staff time expended on the program. At completion of this initial period, staff will use this information to evaluate and further refine the program parameters.

## **SUMMARY**

In an effort to meet the needs of high tech and other industrial operations, the Industrial Tool Installation (ITI) Program is proposed. Staff feels this program will enhance the safety of the community by making it easier for businesses to obtain permits for industrial tool installations. Furthermore, combined with the successful Special Tenant Improvement Program and the proposed fee methodology changes that will reduce permit and plan check fees for most industrial projects, the ITI Program will place San Jose in a strong position for attracting and retaining industrial businesses. This program was developed in response to concerns expressed by local companies, and has been designed in collaboration with these companies. Industry remains highly supportive and enthusiastic about the potential ITI Program.

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## **PUBLIC OUTREACH**

Development Services staff conducted five meetings with representatives from various large high tech companies in San Jose. The purposes of this outreach were: (1) to understand the companies' previous experience with Development Services and industrial tool installation projects; (2) to gather information on ways to improve service, and (3) to survey demand for the potential ITI Program. In addition, staff conducted similar phone discussions with employees of eleven companies. Before commencement of the ITI program, staff will expand this outreach effort to market the program to potential participant companies.

## **COORDINATION**

This memorandum was coordinated with Public Works, the City Attorney's Office, the Office of Economic Development, and the Redevelopment Agency.

/s/  
JEFFREY L. CLET  
Fire Chief

/s/  
JOSEPH HORWEDEL, ACTING DIRECTOR  
Planning, Building and Code Enforcement

*DEPARTMENTAL FEES & CHARGES**PLANNING, BUILD*

Service	Adopted 2005-2006 Fee	Council Policy Cost Recovery Category	Adopted Cost Recovery %	Proposed 2006-2007 Fee	2006-2007 Estimated Cost	Estimated 2007 Current Fee
14. TEMPORARY CERTIFICATE OF OCCUPANCY	\$332 plus \$166 per hour after two hours	Category I		\$178 for inspection services used 1/2 hour minimum		
15. ADDRESSING FEE	\$200 minimum (2 hrs), additional time costs \$100 per hour	Category I		\$214 minimum (2 hrs) additional time costs \$107 per hour		
16. INDUSTRIAL TOOL INSTALLATION PROGRAM ANNUAL REGISTRATION FEE	New Fee			\$1,500 annual registration		
17. DOCUMENT RESEARCH FEE	\$25 minimum (one-half hour); additional time costs \$50 per hr	Category I		\$36 minimum/\$72 per hour or \$53.50 minimum/\$107 per hour depending on staff level		
SUBTOTAL-BUILDING FEE PROGRAM			100.0%		25,840,144	24,691,00

***POSITION COSTS***

<b>Position</b>	<b>Salary/Fringe</b>	<b>Non-Personal</b>
Associate Engineer (Fire)	127,000	2,500
Supervising Inspector (Building)	136,000	2,500
Building Inspection Manager (Building)	152,000	2,500

***APPROPRIATIONS***

PBCE Personal Services	\$	<b>288,000</b>
PBCE Non Personal	\$	<b>5,000</b>
Fire Personal Services	\$	<b>127,000</b>
Fire Non-Personal	\$	<b>2,500</b>